

VZCZCXYZ0020
RR RUEHWEB

DE RUEHYE #0421/01 0850724
ZNR UUUUU ZZH
R 260724Z MAR 06
FM AMEMBASSY YEREVAN
TO RUEHC/SECSTATE WASHDC 2770
INFO RUCPDOG/USDOC WASHDC
RUEHMO/AMEMBASSY MOSCOW 1053
RUEHSI/AMEMBASSY TBILISI 1692
RUEHKB/AMEMBASSY BAKU 0826
RUEHAK/AMEMBASSY ANKARA 0995
RUEHIT/AMCONSUL ISTANBUL 0454
RUEHBS/USEU BRUSSELS

UNCLAS YEREVAN 000421

SIPDIS

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DEPT FOR EUR/CARC, EUR/ACE

E.O. 12958: N/A

TAGS: [ECON](#) [ETRD](#) [KTDB](#) [CCSR](#) [BEXP](#) [BTIO](#) [AM](#)

SUBJECT: ARMENIA COMMERCIAL NEWS SUMMARY: MARCH
2006

SUMMARY

¶1. This cable summarizes press reporting on commercial developments in Armenia for March 2006. Major headlines include:

- Microsoft opens a subsidiary in Armenia;
- GOAM approves new technopark in Gyumri;
- Germany issues Armenia a USD 9.7 million loan;
- Public Services Regulatory Commission (PSRC) approves new gas tariffs for local consumers;
- February 2006 economic data.

END SUMMARY.

MICROSOFT OPENS A SUBSIDIARY IN ARMENIA

¶2. On March 3, Microsoft Corp. opened a subsidiary in Armenia headed by a full-time, locally-based representative. The company plans to release Armenian-language versions of MS Windows and MS Office, to develop Microsoft based solutions for local business, to promote the use of licensed software in government offices and educational institutions and to provide training courses. The subsidiary also hopes to expand Microsoft's distribution network in Armenia. Currently, a local electronics company, Bi-Line, is the only licensed distributor of Microsoft products in the country. Microsoft has approximately 80 subsidiaries worldwide. Its offices in Azerbaijan and Armenia are managed by the Central and Eastern European Division of Microsoft headquartered in Munich, Germany.

GOAM APPROVES TECHNOPARK IN GYUMRI

¶3. In early March, the Armenian National Assembly approved a project to establish a technopark in

Gyumri, Armenia's second largest city. According to Deputy Minister of Trade and Economic Development Armen Gevorgyan, the technopark is designed to encourage information technology (IT) companies to open offices in Gyumri by promoting collaboration between companies and by providing high-quality office space, utilities and infrastructure support. Over the longer term, the government hopes that this project will contribute to sustainable regional development of high-growth industry outside of the capital city. Currently, most of Armenia's IT companies are based in Yerevan.

GERMANY ISSUES USD 9.7 MLN LOAN TO GOAM

14. On March 9, the Minister of Finance and Economy Vardan Khachatryan and the German Ambassador to Armenia signed an agreement on financial cooperation under which Germany will provide Armenia with a USD 9.7 million (Euro 8 million) loan through the German KfW bank. The majority of the loan, USD 7.2 million (Euro 6 million) aims at further developing the local mortgage market by extending mortgage terms to ten years and reducing interest rates. The remainder (USD 2.4 million) will be used to rehabilitate water and sewage treatment plants in the cities of Gyumri and Vanadzor. According to Minister Khachatryan, the interest rate for the KfW loan is 0.75 percent and the term is for 40 years with an automatic 10-year grace period.

PSRC APPROVES NEW GAS TARIFFS

15. On March 10, Armenia's Public Services Regulatory Commission (PSRC) approved new consumer tariffs for natural gas imported from Russia. The new tariffs will be enforced as of April 10, 2006, and raise the residential rate for a cubic meter of gas from USD 0.13 to USD 0.20 in Armenian dram equivalents. The industrial rate is scheduled to increase from USD 0.08 to USD 0.1465 per cubic meter. The new rates significantly increase the cost of natural gas for Armenian consumers (up by 52 percent for residential consumers and by 85 percent for industrial consumers). According to press reports, the government is still negotiating with Russian Gazprom to find ways to reduce the impact of the price increase on the local market.

ECONOMIC DATA FOR FEBRUARY 2006

16. According to preliminary data from the National Statistical Service, Armenia's real GDP for January-February 2006 grew by 7 percent year-on-year to USD 364.6 million. Industrial production totaled USD 198.7 million, down by 0.6 percent compared to January-February 2005. Gross agricultural output for the January-February 2006 grew by 2.7 percent compared to January-February 2005, and amounted to USD 54.4 million. Construction reached USD 28.14 million, a 14.5 percent increase. Foreign trade turnover was valued at USD 364.6 million, with imports constituting USD 251.1 million and exports, USD 113.4 million. The average USD/AMD exchange rate was 450.93. There was 3.8 percent inflation compared to December 2005, and deflation of 1.5 percent in January-February over the same period of in 2005.